



Carolina Telephone  
Centel-North Carolina  
Centel-Virginia  
United Telephone-Southeast

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Senior Attorney

December 2, 1997

Mr. David Waddell  
Executive Secretary  
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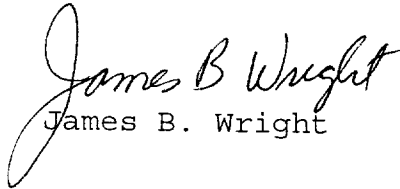
RE: Docket No. 97-00888 (Universal Service)  
UTSE Rebuttal Testimony

Dear Mr. Waddell:

Pursuant to the October 31, 1997 Schedule issued in the above case, enclosed for filing are an original and thirteen copies of the Rebuttal Testimony of Ms. Laura Sykora on behalf of United Telephone-Southeast, Inc.

Please contact me or Laura Sykora (919/554-7323) if you have any questions regarding this filing.

Sincerely yours,

  
James B. Wright

JBW:er

Enclosures

CC: Laura Sykora (with enclosure)  
Steve Parrott (with enclosure)  
Bob Wallace (with enclosure)  
Counsel of Record (with enclosure)

#12769

CERTIFICATE  
Universal Service Fund  
(Docket No. 97-00888)

The undersigned hereby certifies that a copy of the Rebuttal Testimony of United Telephone-Southeast, Inc. filed in the above docket is being provided to each of the following, by placing a copy of the same in the United States Mail postage prepaid and addressed as follows:

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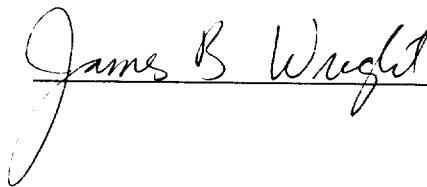
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This 2nd day of December, 1997

James B. Wright

#12920

REBUTTAL TESTIMONY  
OF  
LAURA A. SYKORA  
ON BEHALF OF  
UNITED TELEPHONE-SOUTHEAST, INC.  
DOCKET 97-00888

FILED  
JAN 13 1998  
FBI - MEMPHIS

1 Q. Please state your name and business address.

2 A. My name is Laura A. Sykora and my business address is 14111 Capital Boulevard,  
3 Wake Forest, North Carolina, 27587-5900.

4

5 Q. Ms. Sykora, did you prefile direct testimony in this docket?

6 A. Yes, I did.

7

8 Q. What is the purpose of your rebuttal testimony?

9 A. In my rebuttal testimony, I will address certain statements made by BellSouth's  
10 witnesses Peter Martin, Richard Emmerson, and Daonne Caldwell, by AT&T's  
11 witnesses Richard Guepe, G. Michael Harper and Randy Beard, by AT&T and  
12 MCI's joint witness Thomas Hyde, by Citizen's witness Amy Gilchrist, in the  
13 Coalition's brief and by their witness Stephen Watkins, by Time Warner's witness  
14 Donald Shephard, and by Tennessee Cable Telecommunications Association  
15 witness William Barta. In addition, I will present the position of United Telephone-  
16 Southeast, Inc. (referred to as Sprint) on these particular issues.

17

1 I will use a structure in my rebuttal testimony similar to that in my direct testimony  
2 which states the issue from the October 31, 1997 final issues list determined at the  
3 Special Conference of the Tennessee Regulatory Authority (TRA) Directors on  
4 October 30, 1997.

5  
6 Q. Please address the parties comments on Issue 1. (Define and determine what services  
7 are to be supported by a Tennessee universal service support system.)

8  
9 A. Concerning non-primary residential lines, Sprint agrees with BellSouth's witness Mr.  
10 Martin that these lines should either be eligible for support under the Tennessee  
11 universal service support system or specifically be categorized as non-basic services  
12 under TCA 65-5-208 and given pricing flexibility associated with non-basic services.  
13 If the statute is not modified to define non-primary residential lines as non-basic,  
14 Sprint disagrees with AT&T's witness Mr. Guepe and Citizen's witness Ms.  
15 Gilchrist that the secondary residential lines are not subject to receiving support.  
16 Also, Sprint disagrees with AT&T's witness Mr. Guepe and Citizen's witness Ms.  
17 Gilchrist concerning single connection business lines. Sprint believes single  
18 connection business lines should be eligible for Tennessee universal service support  
19 to satisfy health and safety issues of small businesses and to insure rates to the small  
20 business customers remain affordable in high cost areas.

21  
22 Q. What comments do you have regarding statements made by the parties on Issue 3?  
23 (What carriers/providers are eligible to receive support?)



1

2     A.   Sprint disagrees with the additional criteria for ETC certification described by  
3         BellSouth's witness Mr. Martin on page 26 of his testimony. Mr. Martin indicates  
4         that in order to receive certification as an ETC for intrastate universal service  
5         funding that a carrier should be required to "offer the supported services on a stand-  
6         alone basis at an 'affordable rate' in order to receive high cost support." Sprint  
7         believes that in order to receive high cost support, the carrier, at a minimum, should  
8         offer the supported services on a stand-alone basis. A bundled group of services,  
9         which includes the supported services, should not be precluded from high cost  
10        support when offered in addition to the option to subscribe to the services on a  
11        stand-alone basis. The carrier's support for either the stand-alone service or the  
12        bundled services should be based upon the ILECs maximum allowable rate for the  
13        stand-alone service.

14

15    Q.   Issue 5. relates to the definition of service areas. What comments does Sprint have  
16        on this issue?

17

18    A.   BellSouth's witness Mr. Martin and AT&T's witness Mr. Guepe indicate the service  
19        area should be no larger than the wire center which allow for the consideration of a  
20        Census Block Group (CBG) sized service area. Sprint supports the use of CBG as  
21        the appropriate geographical unit for service areas because larger units can have  
22        wide variations in cost that would encourage cream skimming. Mr. Martin outlines  
23        on pages 20-21 of his testimony that the CBG is harder to administer than the wire

center, but acknowledges that this size area better targets high cost areas, which is a fundamental goal of universal service funding. By using the CBG based service area definition, the cost to serve is more representative of the low cost areas that will be most attractive to competition. Therefore, the CLEC is not receiving a windfall which can result from the use of USF support derived from an average cost to serve an entire wire center, when in actuality they are only serving the customers in densely populated, low cost areas.

Q. Issue 7. is how are affordable rates determined. Do you have any comments regarding the statements made by the parties in their direct testimonies?

A. Yes. Sprint agrees with AT&T's witness Mr. Guepe, BellSouth's witness Dr. Emmerson and Time Warner's witness Mr. Shepherd who all indicate that rates higher than the existing rates would be considered affordable and with BellSouth's witness Dr. Emmerson that USF should begin with rate rebalancing to minimize the need for subsidies. Tennessee Cable's witness Mr. Barta indicates the TRA may want to use a transition period for moving from implicit to explicit funding mechanisms. While Time Warner's witness Mr. Shepherd and I both speak in our direct testimonies to a transition of rates to avoid rate shock, Sprint does not support a transition for movement from implicit to explicit funding.

Subsidy support should be explicit beginning with the establishment of the Tennessee universal service support mechanism. The truest explicit funding mechanism is a

1 surcharge on end users' bills which clearly indicates the surcharge is for universal  
2 service support. As the supported services rates approach the lesser of the price  
3 floor detailed in TCA 65-5-208 (c) or the statewide average urban rate, the amount  
4 of support is lessened resulting in reducing the size of the fund and lowering the  
5 surcharge.

6

7 Q. Issue 8. deals with implicit and explicit subsidies for universal service. What are  
8 your comments on the statements made by the parties?

9

10 A. Sprint disagrees with Tennessee Cable's witness Mr. Barta that the TRA has the  
11 freedom to judge if some implicit subsidies can remain while the competitive market  
12 develops based upon the language in the Telecom Act. Based upon the requirement  
13 of explicit support, Sprint also disagrees with Time Warner's witness Mr. Shephard  
14 in his statements that for residential customers whose rates exceed their costs, the  
15 excess should be used to offset the USF requirement where the cost exceeds the  
16 rate. Mr. Shephard's proposal maintains implicit subsidy support in those  
17 residential rates.

18

19 Sprint agrees with AT&T's witness Mr. Guepe when he states that subsidies should  
20 be targeted and explicit, but Sprint disagrees with Mr. Guepe that without  
21 movement of access charges to their economic costs, monopoly LECs will receive a  
22 windfall from the USF. AT&T's witness Mr. Harper makes a similar statement when  
23 he says LECs are not automatically entitled to revenue neutral recovery of any

1 access reductions in a competitive environment. TCA 65-5-207 (c)(5) requires that  
2 the rates be rebalanced for the financial effect from the “creation or modification of  
3 the universal service support mechanism.” Sprint and other LECs are prohibited by  
4 law from receiving a windfall.

5  
6 Q. In Issue 9., the TRA requested some input on preliminary cost modeling issues. Are  
7 there statements made by the parties that you would like to address?

8  
9 A. Yes. Sprint agrees with AT&T witness Mr. Guepe when he states that USF costs  
10 should be the forward looking economic costs, but Sprint would clarify that these  
11 costs should be for the services to be supported by the universal service funding  
12 mechanism, not the additional services listed by Mr. Guepe of access services and  
13 discretionary service arrangements. Sprint disagrees with Mr. Hyde, jointly  
14 sponsored witness for AT&T and MCI, when he indicates vertical features should be  
15 included in the cost model. Sprint agrees with BellSouth’s witness Mr. Martin that it  
16 is inappropriate to include services in the cost model that are not within the  
17 definition of universal service.

18  
19 Sprint agrees with BellSouth’s witness Ms. Caldwell that the purpose of the  
20 universal service “cost studies is to determine the costs an efficient provider would  
21 incur providing universal service in Tennessee, specifically identifying high cost areas  
22 in the state.” Sprint supports the use of a generic cost model (Benchmark Cost  
23 Proxy Model or BCPM) with inputs reflective of an efficient provider of local

1 service for the service area. Sprint supports the use of company specific forward  
2 looking inputs for the major local service provider for the area as representing an  
3 efficient provider with consideration of economies of scale.

4  
5 Sprint agrees with Tennessee Cable's witness Mr. Barta concerning UNE and USF  
6 costing. Both should be based upon TELRIC plus shared and common costs.

7 However, the shared costs of local switching as a UNE , for example, would include  
8 all vertical feature costs, which is inappropriate for USF cost development.

9  
10 Sprint supports the use of an affordability benchmark, not a revenue benchmark. In  
11 determining the funding requirement, Sprint agrees with BellSouth's witness Martin  
12 that the requirement should be based upon the maximum rate allowed to be charged  
13 including the SLC. BellSouth's witness Dr. Emmerson and the Coalition's witness  
14 Mr. Watkins are correct in their statements that the fund should be sized based upon  
15 the revenues from the supported services (with revenues being defined as the  
16 maximum allowable rate as stated above).

17  
18 The revenue benchmark supported by AT&T's witness Mr. Guepe, AT&T and  
19 MCI's joint witness Mr. Hyde and Time Warner's witness Mr. Shephard include  
20 services beyond the services supported by the universal service funding mechanism.

21 Sprint agrees with the statement of Citizen's witness Mr. Gilchrist, "A (revenue)  
22 benchmark based on traditional revenue flows would effectively continue implicit  
23 subsidization of universal service by other LEC services, thereby making the LEC's

1 prices less competitive in the marketplace and defeating one of the principal  
2 purposes of USF reform.”  
3

4 Q. Whether access charge reform should be addressed in Phase II of this proceeding is  
5 Issue 15. What comments would you like to make on the direct testimonies filed on  
6 this topic?  
7

8 A. Sprint agrees with the statements of BellSouth’s witness Mr. Martin, Citizen’s  
9 witness Ms. Gilchrist and the brief filed by the Coalition that universal service must  
10 be decided before the implicit subsidies in access rates can be eliminated. The TRA  
11 should consider the appropriate structure for access charges through the open  
12 docket on Access Charge Reform. Once the net financial impact of the Universal  
13 Service Fund is determined in Phase II of this docket, a LEC should be allowed to  
14 propose rate rebalancing plans, in accordance with TCA 65-5-207 (c) (5), to the  
15 TRA supported by the necessary cost studies to insure that proposed prices are not  
16 below the TELRIC for the service. These rate rebalancing plans would be in  
17 accordance with TCA 65-5-207 (c) (5) and for price regulated LECs, in accordance  
18 with 65-5-209.  
19

20 Q. Are there any other statements made by the parties in their briefs or direct testimony  
21 that you would like to address?  
22

1 A. Yes. In the Coalition's brief, the response to 6.b. states "the Coalition supports the  
2 use of end user retail revenues as the most efficient basis for assessment of funding  
3 responsibilities." Sprint agrees that intrastate end user retail revenues are an  
4 appropriate basis for determining a carrier's funding responsibility for an intrastate  
5 universal service fund.

6  
7 AT&T's witness Dr. Beard states that it is better to tax outputs than inputs which  
8 would also support the Coalition's statement supporting the use of end-user retail  
9 revenues. Dr. Beard's recommendation to tax outputs and his recommendation that  
10 the support should be assessed via a subscriber line charge align with the Coalition's  
11 statement and Sprint's position. However, Dr. Beard's statements are contradicted  
12 by another AT&T witness (Mr. Guepe) who recommends that the third party  
13 administrator "would collect the TN-USF payments based on all intrastate  
14 telecommunications revenues, net of payments to other carriers".

15  
16 Q. Please summarize your rebuttal testimony.

17 A. Sprint believes primary residential, non-primary residential and single-connection  
18 business lines should be supported by the Tennessee universal service support  
19 mechanism. The TRA does not need to adopt any additional criteria for the ETC  
20 designation beyond the Federal requirements in Section 214 (e) (1). In determining  
21 the appropriate service area for non-rural carriers, Sprint supports the use of the  
22 Census Block Group to address the cost of the area served by the ILEC or CLEC  
23 without competitively advantaging or disadvantaging either carrier.

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Sprint agrees with many of the parties that current local rates could increase and remain affordable. A transition period for local rate increases may be appropriate to avoid rate shock for some end users.

The TRA should consider the appropriate structure for access charges through the open docket on Access Charge Reform. Once the net financial impact of the universal service support mechanism is determined in Phase II of this docket, a LEC should be allowed to propose rate rebalancing plans to the TRA supported by the necessary cost studies to insure that proposed prices are not below the price floor TELRIC for the service. These rate rebalancing plans would be in accordance with TCA 65-5-207 (c) (5) and for price regulated LECs, in accordance with TCA 65-5-209.

For the determination of universal service cost, Sprint supports forward looking economic costs calculated by a generic model (BCPM) with inputs reflective of an efficient provider of local service for the service area.

Sprint supports the use of an affordability benchmark, not a revenue benchmark, to determine the funding requirement for the universal service support mechanism. The affordability benchmark should be the maximum rate allowed to be charged including the SLC.



1

2 Q. Does this conclude your rebuttal testimony?

3 A. Yes, it does.